

63-9556

MEMORANDUM FOR THE DIRECTOR

SUBJECT: Impact of President's Economy Measures on FY 1965 Federal Budget

1. Attached is a resume with tabs of the principal statements and directives of the President on the subjects of the state of the National economy and economies in Federal programs designed particularly to impact upon the FY 1965 Budget - dollar and manpower levels.
2. The budget policy of President Johnson has been vigorous retrenchment in Government employment, a very critical look at each proposed program increase, and a reappraisal of activities of marginal value. However, he has dealt generously with those programs which he considers to be responsive to "human needs" -- health, education, eradication of poverty, etc.
3. While the specific programs' figures and the Presidential decisions pertaining thereto are not yet available, the Bureau of the Budget reports that the 1965 Budget will show reductions for the Defense Department, Atomic Energy Commission, Department of Agriculture, Post Office, and Veterans Administration. It will carry increases for the Peace Corps, Health, Education and Welfare, Housing and Home Finance, and Labor. The Foreign aid budget for FY 1965 is to be lower than the FY 1964 request and somewhat closer to what appears to be a Congressional acceptable level. Research and Development funds are projected at something less than \$16 billion. (Adjusted R & D funds for FY 1964, after Congressional cuts, are estimated by Bureau of the Budget at \$15.2 billion) This R & D level is claimed by the reporting officer at the Bureau of the Budget to be extremely tight in the light of program requests.
4. It was also reported by the Bureau of the Budget that the dollar totals of the President's Budget will be less than those now being reported in the press, i.e. \$103 billion and that they will approximate 16% of the Gross National Product slightly less than the Eisenhower years. (Third quarter estimates for GNP for 1963 are \$588 billion. President Johnson's statement at Tab 9 cites the Council of Economic Advisors as stating U.S. is now passing the \$600 billion GNP mark. Other estimates run as high as \$618 billion in FY 1964 [Prudential Insurance]).

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5. BOB advises that final GNP, expenditure, and revenue estimates, as they will appear in the President's Budget, are still in process with the Council of Economic Advisors and Treasury. They are being developed on the assumption of an early Congressional action on the tax bill.

6. Appropo to the tax bill and revenue estimates, the BOB reports that, given the reduction of taxes, the President's FY 1965 Budget will result in a deficit. However, because of the President's economy policy and tight budget levels, the FY 1965 deficit is expected to be considerably less than the \$14 billion cited to you by Mr. Gordon, Director of the Bureau of the Budget, last fall.

7. The Bureau of the Budget's over-all civilian employment ceiling for June 30, 1964, is 2,512,000. The corresponding figure for FY 1965 is 2,511,600, requiring a decrease in over-all government employment of 400 during FY 1965. This is reported to be some 75,000 below the initial Agency requests to the Bureau of the Budget. Further, the President has asked all Agency heads to personally establish new end-year manpower target levels below the allowance levels to be contained in the FY 1965 Presidential Budget and to report these new levels for his personal review by 10 January 1964. (See Tab 13).

8. The severity of the President's review and reduction of recommended allowances has resulted in repeated revisions of the budget figures, e.g. Agency responses to the Cabinet message/Gordon memorandum (Tab 2) contained reductions of \$511 million in appropriations, \$233 million in expenditures, and more than 10,000 jobs. Agencies also withdrew more than \$136 million and nearly 1,800 jobs in appeals of Budget Bureau allowances. These and other changes will make it exceedingly difficult to meet the statutory deadline for delivery of the Budget to Congress.

9. The Bureau advises that to date no Congressional leaders have been informed of the FY 1965 budget totals, program levels, expenditure or revenue estimates and that these are being held closer than in any previous time. However, it is felt that some break will be required by the time of the State of the Union address.

Marshall S. Carter
Lieutenant General, USA

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